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Summary of the economic and social situation in Africa, 1999

1. The present document, based on the *Economic Report on Africa 2000*, prepared by the Economic Commission for Africa (ECA), reviews the economic and social conditions prevalent in Africa at the dawn of the twenty-first century. Focusing first on the economic performance of the continent and its subregions, it then identifies a set of initial conditions from which policy implications are derived. It finally puts forward a set of indices to measure the long-term sustainability and macroeconomic performance of the African economies.

I. Africa's economic performance

2. Africa's economy grew an estimated 3.2 per cent in 1999, barely improving the previous year's modest performance of 3.1 per cent. Africa's annual average economic growth of 2.1 per cent during the last decade of the twentieth century did not keep pace with the yearly increase in population of 2.8 per cent and was considerably lower than the 7 per cent annual growth rate required to reduce poverty by half by the year 2015. The slow growth of the African economy is the biggest obstacle to improving the living conditions of the majority of Africans.

3. Encouraging results are recorded at the country level. In sharp contrast to previous experience, no African country posted negative GDP growth in 1999. Furthermore, only one economy grew at a rate of less than 1 per cent, compared to four in the previous year. In 19 countries the growth rates ranged between 1 and 2.9 per cent, while another 17 countries managed to grow in the 3-4.9-per-cent range; 12 countries had growth rates between 5 and 6.9 per cent. Five countries, as opposed to only two in the previous year, grew at a rate higher than 7 per cent in 1999. Growing at an estimated 10 per cent each, Mozambique and Equatorial Guinea had the strongest economic performance.

4. At the subregional level, East and Southern Africa, which account for 45 per cent of the population and 37 per cent of the region's GDP, enjoyed higher growth in 1999 relative to 1998. The other three subregions, which together account for 55 and 63 per cent of the population and GDP, respectively, experienced lower rates of growth. East Africa pushed up the aggregate growth rate from the 2.6 per cent of 1998 to 4.1 per cent in 1999, while Southern Africa improved its performance from 1.7 to 2.2 per cent. In North Africa the average growth declined from 4.4 per cent to 3.6 per cent. Performance declined from 3.6 to 3.3 per cent and from 5 to 4.5 per cent in West and Central Africa, respectively.

5. The five largest economies in Africa (i.e., the African G-5) — Algeria, Egypt, Morocco, Nigeria and South Africa — which account for 59 per cent of GDP and 37 per cent of the population of the region, posted a growth rate of 2.8 per cent in 1999. The 11 oil-exporting African economies, which account for 49 per

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cent of the region's GDP and 41 per cent of the population, marginally improved their 1998 growth rate, by 0.1 percentage point, to reach 3.7 per cent in 1999. The six island economies, making up about 2 per cent of the region's GDP and population, posted a decline in their rate of growth from 4.6 per cent in 1998 to 4.0 per cent in 1999. The least developed African countries, representing 16.5 per cent of the GDP and 47 per cent of the population, have shown dynamic GDP growth rates in excess of the continental average in recent years. They again succeeded in increasing the previous year's growth rate by 0.2 percentage points, to reach 4.5 per cent in 1999. The 15 landlocked countries (10 per cent of the regional GDP and 23 per cent of the population) managed to increase their growth rate from 4.2 per cent in 1998 to 4.9 per cent in 1999.

6. At the sectoral level, growth rates declined in agriculture (from 3.5 per cent in 1998 to 2.1 per cent in 1999) and in the industrial sector (from 3.2 to 2.8 per cent). On the other hand, the growth rate in the service sector increased by 1 percentage point, to reach 4 per cent in 1999.

7. Agricultural performance in 1999 was mixed across the region. In North Africa, growth in agriculture decelerated, while in West Africa it increased. Performance in Central Africa was restrained due to civil unrest, political instability, and pest infestation; output in East and Southern Africa declined as a result of a erratic rainfall, war, and uncontrolled crop pests. The poor performance of agriculture, aggravated by population displacement due to political instability, has exposed nearly 20 million people to critical food shortages, requiring emergency food assistance.

8. The service sector continues to be dynamic, showing a 4.0-per-cent growth rate in 1999 relative to only 3 per cent in 1998. Although all service subsectors are growing, the financial and communications services are the lead performers.

9. The terms of trade declined by nearly 6 per cent as a result of a fall in the unit value of exports by more than 3 per cent and an increase in the unit price of imports by more than 2 per cent. The increase in the value of African exports (in United States dollar terms) by 2.4 per cent was due to a 6-per-cent increase in the volume of goods exported, which more than offset the decrease in the unit price of exports. Imports also increased in value and volume. While the increase in value was on the order of 4 per cent, the volume of imports increased by 1.4 per cent.

10. The balance of trade registered export earnings of $101 billion in 1999, an increase of 2.4 per cent from 1998. The current account balance deteriorated further, increasing to $21 billion in 1999, a 13-per-cent increase from 1998.

11. External resource flows rose from $16 billion in 1998 to $22 billion in 1999. Foreign direct investment amounted to about $6 billion while $7 billion came in as transfers. Borrowing amounted to $8.4 billion, an increase of nearly 45 per cent over 1998. The volume of debt rose from $351 billion of 1998 to $359 billion in 1999. Debt servicing increased from $35.7 billion in 1998 to $39.4 in 1999.

II. Initial conditions for development

12. Africa enters the twenty-first century as the poorest and least developed region of the world, the most technologically backward, the most indebted, and the most ravaged by civil conflicts. Half of Africa's population lives in poverty, on an average of $0.83 per person per day. Malnutrition, disease, inadequate housing and unemployment are rampant. Any attempt to relocate the region on a dynamic, shock-resistant, poverty-reducing growth trajectory needs to take into account the constraints imposed by income, poverty and inequality, economic structure, investment, institutions of governance and the state of human capital.

13. Africa accounts for 12.5 per cent of the world's population but produces only 3.7 of the global GDP. Even though it exports no less than a fifth of its GDP annually, it accounts for no more than 1.5 per cent of the global trade in goods and services. In 1999, Africa's 799 million people produced goods and services worth $525 billion in real terms. This amounts to a per capita income of $688 per annum. Yet, at the country level, per capita GDP varies between a high of $6,100 for Seychelles to a low of $100 for Mozambique.

14. At the subregional level, the highest GDP is recorded in North Africa, at $215.6 billion and a per capita annual income of $1,264, followed by that of Southern Africa, at $157.4 billion and per capita of $1,388. Central Africa has the lowest GDP, at

$27.4 billion, but its per capita income is $937. The lowest per capita income is recorded for East Africa, at $177 and a GDP of $42.2 billion.

15. In addition to low levels of income, Africa also exhibits highly unequal distribution of income, with a Gini coefficient of 44.4 per cent. The richest 20 per cent of the African population receive 51 per cent of total expenditure, while the poorest 20 per cent receive only 5 per cent.

16. Although poverty is endemic both in the rural and urban settings, it is more widespread and severe in the former. In sub-Saharan Africa, 59 per cent of the rural population lives below a poverty line of $31.67 per person per month. The average income of the rural poor is estimated at $14.22 per person per month, or $0.47 per person per day, less than half of the internationally accepted minimum of $1 per person per day. Over 43 per cent of the urban population lives below the poverty line of $69 per person per month.

17. Highly unequal distribution of expenditure also characterizes the rural sector of Africa, with a Gini coefficient of 48 per cent. The lowest 40 per cent of the rural population accounts for 16 per cent of total expenditure, while the top 20 per cent receives 48 per cent.

18. Inequality is also prevalent in urban Africa, which has a Gini coefficient of 50 per cent. The lowest 40 per cent of the urban population commands only 16 per cent of total expenditure, while the top 20 per cent accounts for 50 per cent of total expenditure.

19. Over the past four decades, African economies experienced a structural shift. The share of agriculture in GDP declined from 40 per cent during the decade of the 1960s to 21 per cent at the end of the century. However, the decrease in the share of agriculture in GDP by nearly 50 per cent was not due to significant growth of the industrial sector. The share of industry increased marginally from 26 per cent to 30 per cent of GDP during the intervening decades, while the share of the manufacturing industries increased from 9 per cent in the 1960s to 15 per cent at the end of the century. It was the service sector, whose share of GDP increased from 34 per cent to 50 per cent, that benefited the most from the decline in agriculture.

20. The predominance of the service sector in the economies of African countries at the current stage of their development is indicative of a distorted transformation. It has been estimated that the current employment and output shares of the service sector in Africa correspond to a real per capita income level between $2,441 and $4,024, which is considerably higher than the continent's real average per capita income (in 1985 terms) of $1,503 in 1999.

21. A real per capita GDP of $5,224 can be used as a benchmark to determine whether an economy has achieved a relatively mature productive structure. How quickly will Africa achieve this status? At its present rate of growth, the target income level can be achieved only after five and a half decades. To reduce the time period, Africa would need to increase its growth rate significantly. The fact that Mauritius achieved the required level of income in 1988 and that Seychelles will do so shortly shows that, with some systematic effort, African countries could transform themselves into mature industrial economies.

22. One of the most important determinants of long-run growth is investment. Africa is still undercapitalized, given its growth requirements. The required investment to enable a GDP growth rate of 7 per cent per annum for the whole continent is about 33 per cent of GDP, compared to a current investment rate of about 20 per cent of GDP. For sub-Saharan Africa the investment gap is larger: 17 per cent of GDP versus the required 40 per cent.

23. Economic growth does not occur in a vacuum. Countries need social and political institutions that secure rights of private property and personal liberty; enforce contracts; provide stable, responsive, honest, transparent and accountable governments; and allow for social and geographic mobility. At the minimum, peace and political stability are a basic prerequisite for orderly economic activity to take place.

24. War and civil conflicts have affected 61 per cent of the African population since 1963. East Africa was the region with the highest percentage of affected population (79.4 per cent), followed by Central Africa (73 per cent), West Africa (64 per cent) and North Africa (51 per cent). Southern Africa recorded the lowest share of affected population (29 per cent).

25. Of the 26 conflicts reported by the Organization of African Unity (OAU), seven are inter-State, arising from border disputes and territorial claims related to disagreement over the interpretation of colonial legal documents. The remaining 19 conflicts are classified as internal. Some of the identified causes for conflict are

destabilization by mercenaries, human rights violations, geopolitics and cold war, ethnic disputes, power-sharing, and inter-clan rivalries and other factional rivalries and their contagion. Poorer countries are shown to have a considerably higher risk of civil war than richer countries: because of poverty, young men and women have little to lose when they join the rebel armies.

26. In addition to war and civil conflict, Africa also suffers from a population that is neither healthy nor sufficiently schooled. More than 23 million Africans live with HIV/AIDS; almost 14 million have died already. With more than 70 per cent of the world's total number of people living with HIV/AIDS, Africa's economy is being seriously threatened by the pandemic. It is estimated that over the next 20 years, if unchecked, HIV/AIDS will reduce the economies of sub-Saharan Africa by a fourth.

27. As a result of AIDS, the life expectancy of Africans has been reduced by as much as 20 years in some hard-hit countries, wiping out the gains achieved over the past few decades. Infant mortality rates are higher due to AIDS, reversing the progress made in infant and child survival in many countries. In East and Southern Africa, infant mortality rates are nearly 70 per cent higher than what they might have been without AIDS. The scourge is also having a significant impact on businesses by increasing expenditures and reducing income. Business expenditures are increased by health-care costs, burial fees and replacement of employees, while revenue is decreased by absenteeism due to illness, caring for the ill, attending funerals and time spent on training new employees. Studies show that profits have decreased from 20 to 7 per cent as a direct result of HIV/AIDS. The annual cost of HIV/AIDS to a firm ranges from $17 to $300 per worker.

28. Other preventable diseases are all too prevalent. Malaria and tuberculosis further strain the already depleted health budgets. Chronic protein-energy and micronutrient malnutrition affects a large proportion of women and children, resulting in anaemia, blindness and chronic fatigue which can exacerbate diarrhoea, respiratory infections, and measles. The health disadvantages of African countries have a negative impact on wages and productivity. Improving the health status of the African population could be one of the most effective ways to contribute to economic growth.

29. The technological base of the continent is another binding initial condition, as is the brain drain. Africa accounts for only 1 per cent of the total research and development funds and the patents for new products worldwide. African countries do not have enough absorptive capacity; many countries graduate university students who immediately join the ranks of the unemployed. Thousands of African doctors, engineers and scientists leave the continent to search for better opportunities elsewhere.

III. Policy implications

30. Given the current low performance of the continent and the constraints imposed by the initial conditions outlined above, it is perhaps important to ask what development policies might bring about a transformation. Following a long period of experimentation, the policy community seems to be gravitating towards a consensus. In the historical, socio-cultural and economic context of most African countries, reliance on market forces alone is not sufficient; development must be based on broader principles. The Comprehensive Development Framework advocated by the World Bank is a good example of the new consensus. Africa's development strategy should be based on and target the fundamentals summarized below.

A. Participatory approach

31. Key stakeholders must be involved in formulation of the strategies and identification of the actions that need to be undertaken. All the parties concerned should be mobilized to participate in — and thus "own" — the development strategy.

B. Broad-based and equitable growth

32. A key requirement for Africa's development is growth — the dynamic, equitable, and sustained growth necessary to reduce poverty and raise the living standards of the population. The growth strategy should foster the private sector as the principal engine of growth. Africa's private investors require lower transaction costs and less uncertainty.

C. Savings and investment

33. High and sustained growth rates in Africa would require substantial increases in investment and

productivity. New investment should support more productive technologies and higher skill levels. Domestic savings must improve and be invested in plant and equipment instead of in real estate or idle land. African economies must attract foreign savings and reverse capital flight trends by reducing risk and increasing returns. Key measures include a stable macroeconomic environment, an efficient, well-regulated financial sector, effective rule of law, protection of property rights, contract enforcement and, good governance.

D. Investment in human capital

34. The economic and social transformation of Africa in the next millennium will not occur without increased investment in health and education. Low levels of investment in those sectors are major impediments to growth and development. The shares of government budgets to the two sectors must be increased. Investment in health should focus on prevention and basic services and not on funding expensive, highly equipped hospitals. Investment in education should emphasize primary and secondary education, without undermining advanced training in order to prepare for competition in knowledge-intensive sectors. The emphasis should be on increasing the quantity and quality of the services and the efficiency of resource use and equity in their provision.

E. Technological development

35. African Governments should establish incentives for firms to adopt and master new technologies and other modern practices and to engage in entrepreneurship, innovation and learning. This will entail a symbiotic relationship between government, the private sector and institutions of higher learning.

F. Trade and industrialization strategy

36. The required economic and social transformation cannot occur unless the vicious circle of dependence on primary commodities, raw materials and unskilled labour is broken. Countries need to identify, support and expand activities where value-added is greater, productivity growth is faster, and demand elasticities in world markets are higher. Selective governmental intervention in industrial development is inevitable. The diversification of the production and export sectors which is required for Africa's development in the next century is not possible without protection of infant industries. Countries must identify strategic sectors that require protection and then define and identify benchmarks, terms and conditions under which the incentives will be provided.

G. Agriculture and rural development

37. The strategy for rural development should be an essential part of a broader strategy for poverty reduction. Removing the distortions in the incentives structure is not enough and has not elicited the expected supply response. The strategy for agricultural development should go beyond "getting the prices right" and focus more on increasing the productivity of the sector by removing institutional and structural constraints. Policies should aim at increasing public investment in agricultural research and infrastructure and at increasing farmers' skills and access to credit. New technologies, appropriate to the natural conditions of different regions in Africa, should be adopted.

H. Environmental protection

38. Effective environmental policies are essential at the national and regional levels. Environmental deterioration has increased in the past decade due to a number of factors, including increased poverty, high population growth, pressure on scarce resources and environmentally unfriendly reforms. African Governments need to address the underlying causes of environmental degradation, including market failures, poor information, and pernicious incentives. There is need to promote local solutions based on an analysis of costs and benefits and in consultation with all stakeholders.

I. Integration into the global economy

39. Any improvement in African economic performance will depend on the extent to which the continent becomes integrated into the world economy. African economies must expand their markets, diversify, and become competitive. One way to diversify might be to develop common infrastructures such as transport and communications, banking and insurance services.

J. Aid and external debt

40. Africa's development will continue to be dominated by aid and debt in the foreseeable future. Since the conditions that were largely responsible for

the ineffectiveness of official development assistance (ODA) are improving and given the development challenges for the twenty-first Century, the need for ODA is even greater. At the same time, Africa's development partners should continue to look for ways to help resolve the debt burden.

K. Institutional infrastructure and good governance

41. An important element of Africa's development effort has been the move towards a market economy, but the benefits in terms of higher growth and poverty reduction have been limited. Transformation will weaken some of the existing institutional arrangements, while creating the need for new ones. In order to manage the change that will come with development, it is important to strengthen the institutional infrastructure and, where necessary, establish new institutions.

L. Role of governments and public policy

42. Perhaps the most important challenge arising from the foregoing discussion is the critical role that African Governments will have to play in ensuring that the region will achieve the social and economic transformation that is required for development in the next millennium. It is important to recognize that even in a completely private market economy, Governments will be required to manage the rules and regulations that govern the functioning of a market economy. At the core of a market economy are transactions, which are governed by property rights and contracts. To ensure an even playing field, Governments must effectively and equitably monitor and enforce the rules and regulations. Strengthened administrative and managerial capacities in the public sector will allow Governments to provide the necessary leadership and help the development of the private sector through teaching by doing.

IV. Economic sustainability and policy stance indices

43. The Economic Sustainability Index (ESI) is a comprehensive indicator of economic sustainability that measures an economy's capacity to produce outcomes that are consistent with long-term structural change on a regular basis. ESI assesses a country's medium- to long-term potential to produce and maintain good economic performance by focusing on indicators of sustained growth, human capital, structural diversification, transaction costs, external dependency, and macroeconomic stability. Each country is given a score between 1 and 10, on the basis of how it compares with the average of the three best performers in Africa.

44. ESI scores reveal that the sustainability of African countries is low. Only a fifth of the continent's population lives in economically sustainable countries while half of Africa's population resides in countries with low degrees of sustainability The most sustainable economies (in descending order) are those of Seychelles, Tunisia, Egypt, South Africa, Mauritius, Morocco, Botswana, Lesotho, Swaziland, and Algeria. The 10 least sustainable countries are (in ascending order): Sierra Leone, Chad, Niger, Guinea-Bissau, Burundi, Central African Republic, Uganda, Ethiopia, Mali, and Democratic Republic of the Congo.

45. At the sub-regional level, North Africa has the highest ESI score — 5.79. Southern Africa is second, with a score of 4.20. Central Africa and West Africa are next, with 3.44 and 3.20, respectively. With a score of 3.12 East Africa has the lowest ESI.

46. To see how sustainability has changed in the recent past, an ESI for the year 1987 was constructed and compared to that for 1999. The progress made is encouraging. Overall, Africa's ESI improved by 4.8 per cent. While 26 countries registered positive changes in their ESI, 18 countries managed increases of more than 10 per cent. In contrast, only seven countries (Comoros, Angola, Sierra Leone, Rwanda, Gabon, Democratic Republic of the Congo, and Zambia) experienced a decline of more than 10 per cent in their ESI. At the subregional level, West Africa showed the highest improvement (12.3 per cent) over the intervening period, followed by North Africa (7.8 per cent), and East Africa (4.3 per cent). Southern and Central Africa suffered declines of 6.9 per cent and 2.8 per cent, respectively.

47. The countries that showed substantial improvement are of all sizes, regions, and levels of development, showing that the potential exists for all African countries to make progress towards a more sustainable future. Most of the best performers benefited from cessation of civil wars, greater stability, and economic and political reforms. In contrast, almost

all of the bad performers suffered from serious civil conflict and unrest during the period under consideration. Peace, stability, and deepening economic and political reforms are necessary conditions for Africa's sustainable development during the twenty-first century. Furthermore, the components of ESI — sustained growth, human capital, structural diversification, transaction costs, external dependency and macroeconomic stability — are correlated with each other. Particularly striking is the strong correlation between human capital and all other components of ESI. This implies that countries with a better human capital stock stand a better chance of sustaining positive developmental outcomes.

48. The Economic Policy Stance Index (EPSI) analyses macroeconomic policies of African countries, including fiscal, monetary, and exchange rate policies. Countries score from 1 to 10 on the basis of how they compare with the continent's best performers. Kenya earns the top score, bolstered by strong performance across the board. Ethiopia comes second, having made significant progress towards liberalization in recent years. South Africa, Gabon and Namibia round out the top five. Sao Tome and Principe, Malawi, Central African Republic, Angola, and Sierra Leone are the lowest scorers. Civil conflict and economic mismanagement appear to be explanatory factors for the low performance. East Africa comes out ahead, with a score of 5.84, followed by North Africa (5.81) and Southern Africa (5.57). Central Africa scored 5.19, while West Africa placed last, with a score of 5.04.

49. According to EPSI, 37.3 per cent of the African population live in countries implementing good macroeconomic policies; while only 29.8 per cent live with bad macroeconomic policies.

50. The quantitative analysis of EPSI have been combined with the results of a survey of qualitative nature conducted by ECA, using a questionnaire filled out by a sample drawn from a variety of occupational groupings across the continent, including representatives from government, business, international organizations, non-governmental organizations, and academia. Governmental officials tended to have the highest degree of confidence in their countries' economic policies. Members of the business community were next, which bodes well for Africa's future competitiveness, suggesting that policy makers are making serious attempts to facilitate a business-friendly environment. Conversely, representatives of non-governmental organizations gave the worst scores of any of the occupational categories.